

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
DODE-00 EB-08 H-01 INR-10 INT-05 L-03 NSAE-00
NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15
STR-07 TRSE-00 ACDA-12 FRB-03 XMB-02 OPIC-03
LAB-04 SIL-01 PA-01 AGRE-00 /132 W
-----103777 031426Z /42

R 031254Z MAR 78
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC 8550
INFO AMEMBASSY BELGRADE
AMEMBASSY BRUSSELS
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
USINT HAVANA
AMCONSUL LENINGRAD
AMCONSUL MUNICH
AMEMBASSY PARIS
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
USMISSION USBERLIN
USMISSION USNATO
AMEMBASSY WARSAW
USDOC WASHDC
USDOE WASHDC

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USEEC
USOECD
USDOC FOR BEWT

E.O.11652:N/A
TAGS: ECON, ENRG, SOCI, EALR, UR
SUBJECT: SOVIET PRICE INCREASES - GASOLINE UP CLOTHING DOWN
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REF: (A) MOSCOW 3128, (B) 77 MOSCOW 346

SUMMARY. ALTHOUGH THE SOVIET UNION DOUBLED RETAIL
GASOLINE PRICES ON MARCH 1, THE PRICE EFFECT FOR ALL BUT
PRIVATE CONSUMERS (5-6 PERCENT OF ALL CONSUMPTION) WILL BE
GREATLY MITIGATED BY STATE SUBSIDIES. CURIOUSLY, STATE

PRICE COMMITTEE CHAIRMAN GLUSHKOV TOLD A PRESS CONFERENCE THAT HE FORESAW LITTLE EFFECT ON CONSUMPTION AS A RESULT OF THE CHANGES, WHICH HE JUSTIFIED AS NECESSITATED BY HIGHER PRODUCTION COSTS. THE CUSTOMARY PRICE REDUCTIONS ON SLOW-MOVING ARTICLES WERE ALSO ANNOUNCED. END SUMMARY.

1. SOVIET AUTHORITIES USED THE MARCH 1 ANNOUNCEMENT OF CUSTOMARY PRICE REDUCTIONS TO DOUBLE THE PRICE OF GASOLINE

FOR SOVIET CONSUMERS AND TO RAISE THE PRICES OF SOME BEVERAGES AND OTHER "LUXURIES" (SEPTEL). THE PRAVDA ANNOUNCEMENT REPORTED THAT GASOLINE PRICES WERE DOUBLED TO 15-20 KOPEK PER LITER (\$0.83 TO \$1.10/GALLON), DEPENDING ON OCTANE (76-95). HOWEVER, WHILE ORGANIZATION AS WELL AS INDIVIDUALS MUST PAY THE NEW PRICES, STATE PRICE COMMITTEE CHAIRMAN GLUSHKOV SAID IN A MARCH 1 PRESS CONFERENCE THAT COSTS WOULD BE TAKEN INTO ACCOUNT IN PLANNING AND THE STATE BUDGET USED TO COMPENSATE ENTERPRISES BY LOWERING TARGETS OR PAYING SUBSIDIES. THUS, UNLESS THIS COMPENSATION IS RELATIVELY SMALL, THE BURDEN OF THE INCREASES IS LIKELY TO FALL ON THE SMALL SECTOR OF PRIVATE GASOLINE CONSUMPTION (5-6 PERCENT OF THE TOTAL GASOLINE CONSUMPTION IN THE USSR, ACCORDING TO GLUSHKOV).

2. GLUSHKOV SAID THAT CURRENT OIL PRODUCTION COSTS ARE HIGH AND RISING. HE ASSERTED THAT THE SOVIET GOVERNMENT LIMITED OFFICIAL USE

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WANTS PEOPLE TO REALIZE THAT OIL IS EXPENSIVE AND MUST BE CONSERVED, BUT INTERESTINGLY HE CLAIMED THERE WERE HUNDREDS OF LETTERS COMPLAINING ABOUT THE USSR'S "UNJUSTIFIABLY LOW" GASOLINE PRICE. GLUSHKOV ALSO SAID THE DIESEL PRICES WOULD BE RAISED.

3. THIS YEAR'S PRICE DECREASES TOUCH A SMALLER RANGE OF ITEMS THAN LAST YEAR WHEN RADIOS AND PHONOGRAPHS, BALL-POINT PENS, MEDICINES AND VACUUM CLEANERS WERE ALSO INCLUDED. BLACK AND WHITE TV SETS WERE REDUCED AN AVERAGE OF 20 PERCENT, MEDIUM SIZE REFRIGERATORS (UP TO 180 LITERS) BY 15 PERCENT, AND LIQUID AND POWDERED SYNTHETIC DETERGENT BY 18 PERCENT. SEVERAL SYNTHETIC FABRICS AND NUMEROUS ITEMS OF CLOTHING MADE FROM THEM WERE REDUCED BY 15 PERCENT AND 15 TO 30 PERCENT, RESPECTIVELY. NEVERTHELESS, THE MINISTRY OF TRADE ANNOUNCED LATER ON MARCH 1 THAT STORES WOULD HAVE ON SALE AT REDUCED PRICES SOME 1.7 BILLION RUBLES' WORTH OF GOODS. BESIDES THE ITEMS MENTIONED IN THE PRICE REDUCTION ANNOUNCEMENT, HOWEVER, THE GOODS IN THIS YEAR'S SPRING SALE INCLUDE ELECTRICAL ITEMS, SPORTING GOODS, RADIOS AND PHONOGRAPHS, SEASONAL ITEMS AND COSMETICS.

4. COMMENT: WE AGREE WITH GLUSHKOV'S SURPRISING ACKNOWLEDGMENT THAT THE EFFECT OF THE INCREASE ON CONSUMPTION IS LIKELY TO BE SMALL. THOSE WHO CAN AFFORD TO BUY AND GARAGE SOVIET AUTOMOBILES CAN STAND THE HIGHER PRICE (AND THE SOMEWHAT HIGHER COST OF AUTOMOBILE REPAIRS WHICH WAS ALSO ANNOUNCED MARCH 1). IF THE ECONOMIC EFFECT IS LIKELY TO BE RELATIVELY SMALL, HOWEVER, THE SOVIET AUTHORITIES HAVE AT LEAST SET THE PUBLIC ON CLEAR NOTICE THAT OIL IS NO FREE GOOD AND MUST NOT BE WASTED. OVER THE LONGER RUN THE HIGHER PRICES MAY INDUCE SOME ATTEMPTS AT ECONOMIZING BY ORGANIZATIONS, PARTICULARLY BY THOSE ON A COST-ACCOUNTING BASIS. WHILE THERE IS NO WAY OF KNOWING,

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THE PRICE INCREASES MAY ALSO HAVE BEEN TAKEN WITH A
THOUGHT TO MOLLIFYING EAST EUROPEAN CRITICISM OF LOW
SOVIET DOMESTIC PRICES, AS WELL AS TO PROVIDE MODEL FOR
THE EAST EUROPEANS TO FOLLOW AT HOME. MATLOCK

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRICES, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MOSCOW03470
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780097-1014
Format: TEL
From: MOSCOW USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197803110/aaaadpeu.tel
Line Count: 173
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 179f24b9-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 MOSCOW 3128, 77 MOSCOW 346
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3129184
Secure: OPEN
Status: NATIVE
Subject: SOVIET PRICE INCREASES - GASOLINE UP CLOTHING DOWN LIMITED OFFICIAL USE LIMITED OFFICIAL USE
TAGS: ECON, ENRG, SOCI, EALR, UR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/179f24b9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014